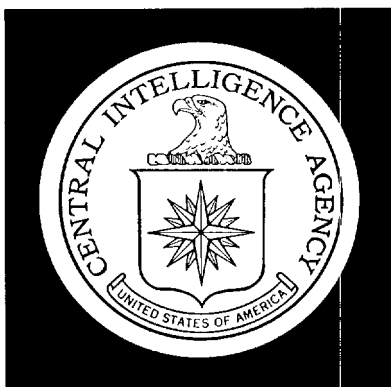


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Central Intelligence Bulletin

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26 June 1971

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Approved For Release 2003/09/02 : CIA-RDP79T00975A019400030001-3

Approved For Release 2003/09/02 : CIA-RDP79T00975A019400030001-3

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No. 0152/71
26 June 1971

Central Intelligence Bulletin

CONTENTS

VIETNAM: The North Vietnamese campaign near the DMZ. (Page 1)

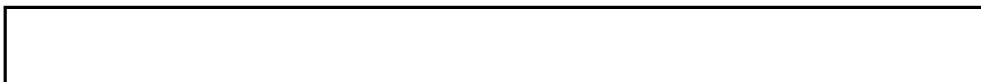
LAOS: The dialogue on opening peace talks. (Page 2)

JAPAN-US: Trade and investment policies. (Page 3)

USSR-JAPAN: Soviet concern about Tokyo's relations with China. (Page 4)

NATO-MBFR: Differences among the allies. (Page 5)

YUGOSLAVIA-USSR: There may soon be a deterioration in relations. (Page 7)



25X1

TUNISIA: Bourguiba is following an active schedule. (Page 10)

JAPAN: Clash between JCP and students (Page 11)

COMMUNIST CHINA - IRAQ: Economic credit (Page 11)

USSR-IRAQ: Economic protocol (Page 12)



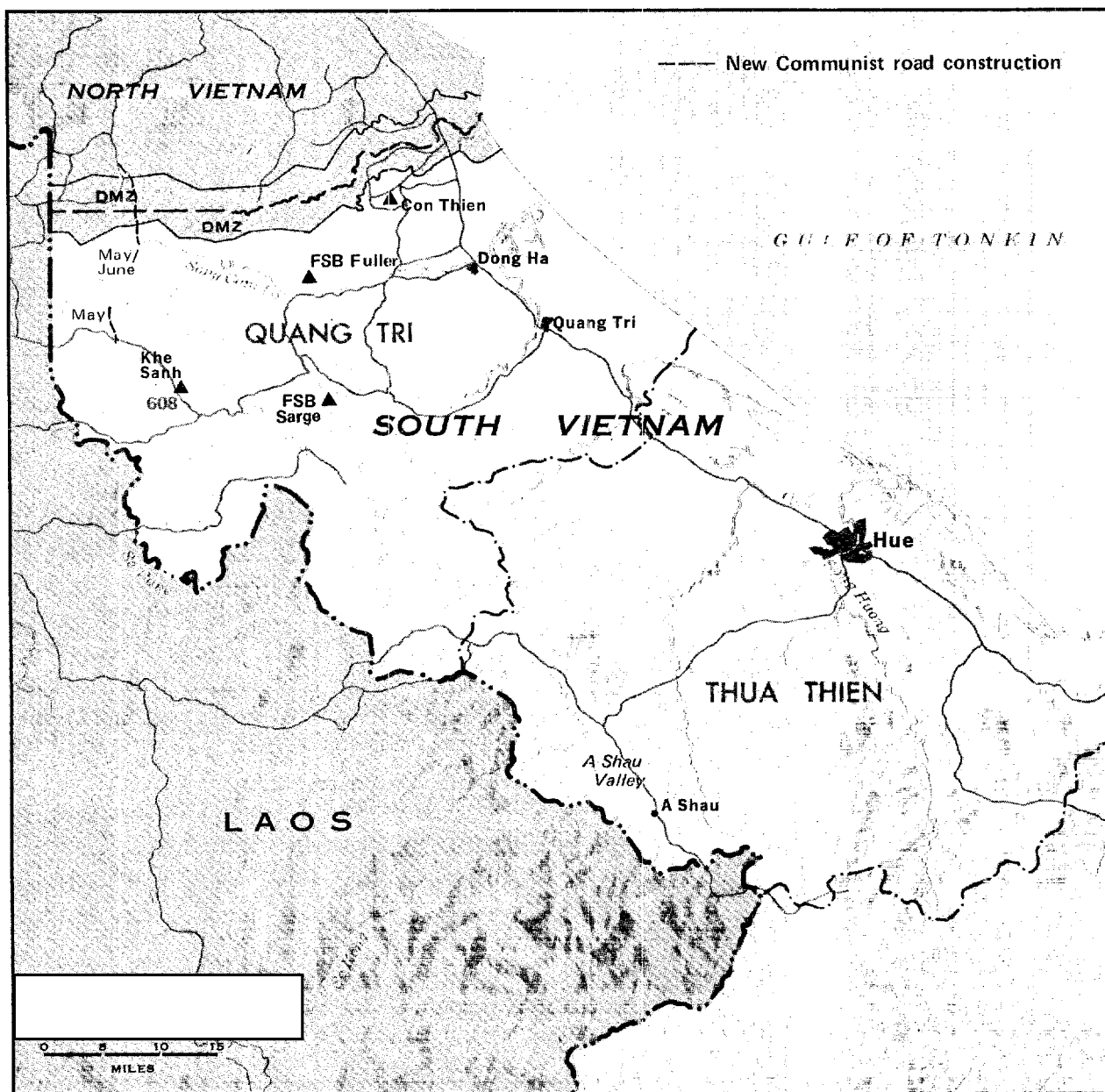
25X1

PERU: Social mobilization front (Page 13)

NEW ZEALAND: UK-EC dairy products agreement (Page 13)

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SECRET

VIETNAM: The North Vietnamese are carrying out yet another of their long series of military campaigns in the area of the Demilitarized Zone and northernmost South Vietnam.

Several weeks ago the intensity of enemy shellings and ground probes increased. During the past few days heavy North Vietnamese shellings forced the South Vietnamese at least temporarily to evacuate one strongpoint below the central DMZ--Fire Support Base Fuller--and in central Quang Tri Province another ARVN base has come under heavy enemy pressure.

The specific tactical plans of both the North Vietnamese and the South Vietnamese, who are now mainly responsible for defending the northern front themselves, are by no means clear.

To facilitate movement in the area of the DMZ, since early May the North Vietnamese have constructed a 4.5-mile road through the western end of the DMZ to about one mile inside northern Quang Tri Province--the first such road ever observed. This road may be headed for a junction with Route 608. Supplies and personnel have moved through the DMZ for years over an extensive network of trails, but the new road will greatly enhance the Communists' logistical capabilities in the area.

The South Vietnamese are facing the difficult decision of whether to defend the forward strongpoints along the DMZ and in the western mountains, which would keep the fighting away from the civilian population, or to withdraw to positions closer to the coast. In countering enemy drives in earlier years, US forces withstood longer enemy sieges at the forward bases.

In the coming weeks the strength of the North Vietnamese push in Quang Tri Province and the South Vietnamese response to this pressure may provide an indication of Saigon's ability to pick up the security burden as US forces withdraw.



25X1

26 Jun 71

Central Intelligence Bulletin

1

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SECRET

LAOS: The Communists are continuing their political dialogue with the Vientiane government on opening Lao peace talks.

Pathet Lao leader Souphanouvong has sent Prime Minister Souvanna Phouma another letter that hews to the Communist line that any progress toward a Lao settlement depends on a total US bombing halt. The letter contains two new ingredients that appear designed to convey an impression of reasonableness. Souphanouvong now is proposing that a cease-fire in Laos would coincide with a US bombing halt; previous Communist terms were that a bombing halt would have to precede a cease-fire.

In addition, the Communists have proposed that Vientiane and the Plaine des Jarres serve alternately as the sites for the negotiations that they say would follow the cease-fire. This is the first time this year that the Communists have gone so far as to discuss the modalities of the talks. The Communists are aware that their demand for a bombing halt is the real stumbling block to talks; raising the question of the site for talks is essentially designed to give the impression that they are ready to move ahead--if their terms are met.

25X1

26 Jun 71

Central Intelligence Bulletin

2

SECRET

SECRET

JAPAN-US: Reflecting concern about growing US criticism, Tokyo is attempting to assure the US that it is committed to increased liberalization of its trade and investment policies.

Takeshi Yasukawa, a top Japanese Foreign Office official told Under Secretary Johnson on 23 June that if economic relations between the US and Japan were not handled properly, the results would be "very unfortunate." He expressed concern that economic problems could jeopardize chances for US Senate ratification of the Okinawa reversion agreement. He was warned by US officials that the atmosphere in the Senate has been soured by economic frictions with Japan, and submission of the treaty to the Senate might have to be delayed.

Yasukawa claimed that Japanese economic agencies were taking a more positive attitude toward liberalization, most notably the international trade ministry. He also noted a growing emphasis in the Japanese press that more must be done to alleviate US-Japan economic tensions.

In a similar vein, Prime Minister Sato, campaigning this week for his party's candidates in Sunday's Upper House elections, stressed the need for increased liberalization measures. As this type of plea is not likely to win votes in Japan, Sato apparently is trying to generate a public consensus for whatever measures Tokyo decides to adopt. In a further move to build support for his position, Sato reportedly is planning to bring in people more committed to liberalization in the cabinet reshuffle planned for early July.

Although much of the talk is probably for US consumption, Tokyo recognizes that stepped-up trade and capital liberalization are necessary to reduce the present friction between the US and Japan. Effective liberalization measures are likely to take some time, however, in view of continuing opposition from certain elements in the government ministries and business community.

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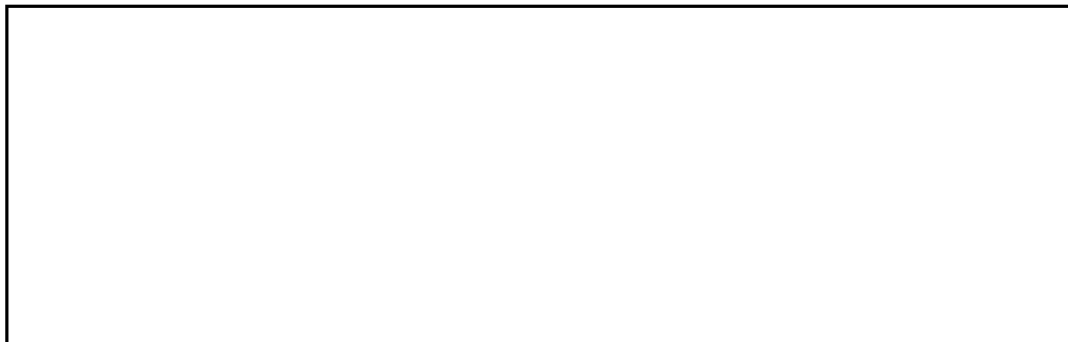
26 Jun 71

Central Intelligence Bulletin

3

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USSR-JAPAN: Moscow is increasingly concerned about growing pressure in Japan for better relations with China.

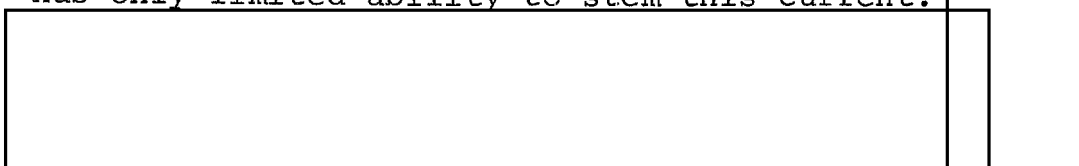


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Nevertheless, Moscow's unwillingness to meet Tokyo's political demands and its clumsy handling of economic dealings with Japan continue to strain relations. This week, for example, the annoyed Japanese turned the tables on a visiting Soviet emissary whose mission was to publicize the USSR's recent "peace initiatives" and needled him about the USSR's failure to return the "Northern Territories." Almost simultaneously, Moscow hurt its drive for better relations when it postponed again, this time indefinitely, the annual USSR-Japanese economic cooperation meeting, claiming it was not prepared to discuss various Siberian development projects in detail. The cancellation may reflect disagreement in Moscow over plans for Siberian development and the role to be granted the Japanese in it, as well as economic considerations such as the terms of financing.

The Japanese have attached little urgency to improving ties with Moscow. For one thing, there is little political capital to be made on this issue while advocacy of better ties with China creates a highly favorable popular response. At least some Soviet officials appear to recognize that the USSR has only limited ability to stem this current.

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NATO-MBFR: The quickening pace of the dialogue on mutual and balanced force reductions is accentuating differences among the allies.

London remains fundamentally skeptical that any force reductions can be negotiated that will not reduce NATO's security. The British are particularly concerned that the drift toward negotiations is outstripping allied preparations. London also thinks that the Canadians and a few other allies, by pushing for appointment of an emissary to discuss MBFR with the East prior to the meeting in the fall of the NATO deputy foreign ministers, risk blurring the existing NATO guidelines on how such talks should be approached.

Paris generally shares London's skepticism and is particularly concerned about news reports that forward based nuclear systems might be included in MBFR talks. Nevertheless, France reportedly now considers that simple opposition to MBFR is no longer tenable for it, and the government is reviewing its entire approach. Paris plans on bilateral talks with Moscow to probe Soviet motivations.

Bonn, following Brandt's recent talks in Washington, appears much more relaxed about the effect of force reductions on Western defenses. Defense Minister Schmidt was reported yesterday, however, to have cautioned that the two superpowers could not ignore the members of NATO in agreeing even to symbolic troop reductions. The federal Security Council will meet on Monday to consider various approaches to MBFR, including that of initial symbolic cuts.

Meanwhile, Moscow continues to urge that NATO clarify its position on MBFR and quicken the pace of discussions. Soviet Chargé Vorontsov told US officials in Washington late this week that because

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MBFR was a Western idea, NATO should be providing answers and making specific proposals rather than asking questions. Although in no way defining the Soviet position more precisely, Vorontsov repeatedly asserted that the current method and pace of bilateral exchanges would not lead anywhere and claimed that the USSR is "ready for substantive discussions."

25X1

26 Jun 71

Central Intelligence Bulletin

6

SECRET

YUGOSLAVIA-USSR: The Yugoslav party appears to be girding itself for a significant deterioration in its relations with Moscow.

At a meeting of the party presidium's commission on international affairs on Wednesday, relations with the Soviets were reviewed and it was concluded that there has been no improvement since the invasion of Czechoslovakia and that future prospects are not good. The Soviets were accused of trying to isolate Yugoslavia by criticizing non-alignment and reviving the Brezhnev doctrine. The commission also condemned Moscow's support of subversive activities in Yugoslavia and abroad, and claiming, without presenting evidence, that the CPSU is suggesting to the Soviet populace that the situation in Yugoslavia is approaching that in pre-invasion Czechoslovakia, and that "corresponding actions should be taken."

In an unusual move, the party commission's report will be disseminated to the lowest party units, suggesting an expansion of the present polemical campaign. The party appears to be using fears of Soviet interference to drive the faction-prone federation together during this crucial reform period. Tito might be prepared to go quite far with this strategy.

The participants also demanded reciprocity in bilateral information activities and pointed out that the Soviets still refuse to allow a Yugoslav information center to open in Moscow. This demand is intended to lead to a cut in dissemination of Soviet propaganda in Yugoslavia.

The Soviets have still not replied to Belgrade's official protest of 8 June against toleration of anti-Yugoslav émigré activities in Moscow. Publicly,

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however, Izvestia has denied the charges and declared that the USSR is willing to improve relations. Even the fact that these countermoves are in low key has not eased Yugoslav suspicions of Soviet intentions. Untraceable rumors in Yugoslavia about Warsaw Pact and Soviet invasion schemes appear to have multiplied.

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TUNISIA: President Bourguiba has plunged into a fairly active schedule since he returned to Tunis a week ago, but there are still no indications of what role he intends to play in the government and the ruling Destourian Socialist Party.

There has been no reading as to the state of his health since he returned. During brief ceremonies on his arrival, he spoke lucidly to the welcoming dignitaries and greeted governmental, party, and diplomatic officials individually. He thereafter rode standing in a jeep in a televised hour-long parade through the city. Since then he has held long conversations with his prime minister and the ministers of foreign affairs, justice, and interior. These conversations appear to have added fuel to the already circulating rumors of an impending governmental reshuffle.

The foreign press has reported the resignation of Interior Minister Mestiri, but the fact that the government has not yet commented officially on the reports may indicate that Bourguiba is attempting to persuade him to remain in the cabinet. Mestiri and Habib Boulares, the former information minister who resigned just before Bourguiba returned, represent the party's liberal wing, which favors decentralization of both party and government. Some say that the "old guard," headed by Prime Minister Nouira, has effectively neutralized the liberal wing, but here again Bourguiba's intentions are still not known.

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JAPAN: In an ironic twist, the Japanese Communist Party, on the occasion of the 11th anniversary of the signing of the US-Japan Mutual Security Treaty on 24 June, was forced to call on the Japanese police for protection against an attack on JCP headquarters by extreme left-wing students. The Communists have charged that a court's refusal to grant an injunction against the extremist demonstrators and inadequate police protection represented a government "plot" to let the Marxists destroy each other. The incident comes as a clear embarrassment to the JCP on the eve of Sunday's Upper House elections, as the Communists have long been trying to cultivate a peaceful, parliamentary image.

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COMMUNIST CHINA - IRAQ: Peking has extended its first economic credit to Iraq. The credit is valued at nearly \$40 million and covers the cost of unspecified plants, equipment, and technical assistance. The liberal terms of the interest-free credit call for repayment in Iraqi goods to begin in 1984 and to take place over a ten-year period. The agreement was reached during the recent visit of an Iraqi delegation to Peking headed by the Iraqi oil and minerals minister.

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USSR-IRAQ: A high-level Soviet delegation has departed Baghdad after more than a week of discussions on various topics with Iraqi Government and Baath Party officials. According to a joint communiqué, the two sides signed a protocol covering the second stage in the development of the North Rumaila oilfield and the construction of a canal that will help regulate the Euphrates River. Party relations were discussed, probably in an attempt to ease the friction between the ruling Baath and the Iraqi Communists. The Arab-Israeli conflict and fedayeen activities also were discussed. The US Embassy in Moscow believes that the visit may not have been very warm; TASS coverage suggests that there were some differences, particularly over Iraq's persistent opposition to a "political" settlement of the Middle East question.

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26 Jun 71

Central Intelligence Bulletin

12

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PERU: The Velasco government has established a new cabinet-level office with the responsibility of organizing the populace behind the "revolutionary government." The new "social mobilization" front will involve a network of national, regional, and local organizations to provide training and orientation for the public, develop social institutions, and to serve as a direct line of communications between the government and the people. The new system initially will encompass organizations and cooperatives already controlled by the government. As a long-term objective, the military government probably hopes to provide a vehicle it has lacked heretofore for organizing mass political support.

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NEW ZEALAND: The country's economy will not be seriously hurt by the recent decision of the UK and the European Communities (EC) regarding New Zealand's dairy products. The agreement, which will come into force with British accession to the EC, presumably in 1973, calls for Wellington gradually to reduce its butter and cheese shipments to the UK over a five-year period to 71 percent of the current level. These two products account for about 15 percent of New Zealand's exports and the proposed reductions would mean at most a five-percent drop in export earnings spread over the five years. Dairy farmers will be hurt by the partial loss of the British market, and Wellington is already placing greater emphasis on diversifying the economy.

25X1

26 Jun 71

Central Intelligence Bulletin

13

SECRET

25X1

Approved For Release 2003/09/02 : CIA-RDP79T00975A019400030001-3

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